



Lesson Ten

What is Credit?

Introduction:

In an earlier lesson, we explored how budgets can help people manage their money and plan for upcoming or desired expenditures. This lesson will focus on credit and how it can be a useful tool to help us obtain things we want.

Objectives:

- To introduce students to the principles of credit.
- To explain the possible dangers of spending money we don't have.
- To reinforce the need to manage our spending.

Suggested Materials/Speakers:

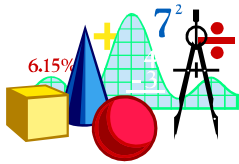
- *The Story of Money* by Betsy Maestro
- *Totally Awesome Money Book for Kids* by Andrian G. Berg and Arthur Berg Bochner.

Suggested Activities/Homework:

Creative Arts

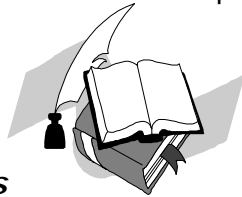


- Design and illustrate an advertisement for a car dealership offering special credit to new car buyers.



Math

- With an interest rate of 5%, 7%, or 15%, how much will a \$1,000 loan cost a year, a month, a week, or a day? How much will you have to spend once the loan is paid off?



Language Arts

- When you ask your parents for a small loan, do they take into account your credit history? (For example, do you pay them back when you say you will?)
- Bring in a newspaper automotive section to study new and used cars and the varying costs. Determine your needs and wants in your dream car. Examples: new, used, single, married, children, sports car, truck, two door, four door, air conditioning, etc.
- Write a story about your dream car. What would it look like? Where would you take it?



Social Studies

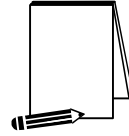
- Why do people say credit is a privilege? How do you “earn” this privilege?



Computer

- Design your dream car on the computer.

Attachments



- *Money Uses and Credit:* Lesson Material, Glossary and Web Sites.
- *Credit Card Application*

MONEY USES AND CREDIT

What is credit?

Credit comes from the Latin word "creditus" which means "to trust". **Credit involves lending money in good faith to an individual or entity that will repay the loan.** The lender will usually charge a fee, commonly referred to as interest, for the use of the money. Many people think they have a right to credit. It is actually a privilege that must be earned. People use credit every day as an alternative method for us to obtain the things we want without having to carry cash around. By allowing us to pay for the item over a period of time, credit also allows us to buy things we might not be able to afford all at once.

Let's suppose you want to buy a car. You shop around and find a car that you like. The car costs \$1,000 but you only have \$100 saved. The car dealer offers you a proposal. You may drive the car home today if you give the dealer \$100 now and the dealer will lend you the remaining \$900 provided that you agree to pay a certain amount each month until the \$900 is paid in full. The dealer also asks you to pay an additional \$100 for the use of her money (the \$100 represents the dealer's interest fee). If you agree to the terms the car dealer offers, you could drive the car home today. This example illustrates credit in action.

Now, before the car dealer offers you a loan, she will check to see if you have a good "credit history". Credit history is a record of all the credit transactions a person has made. If the record shows that you haven't made your payments on time or that you have otherwise abused your credit privileges, she may decide you are a poor "credit risk." In other words, based upon your history, a dealer is not sure whether you will repay the money you owe and may decide not to lend you the money. You would then need to pay \$1000 immediately or leave without the car.

Where do you go to get credit?

Credit usually is available through two vehicles: a credit card or a loan. Department stores, banks, and other financial service companies issue most credit cards. A store may issue customers a credit card to make it easier for them to make purchases in the store. Most stores only honor

their own credit card. (In other words you cannot use your Sears card at Filenes.) Some credit cards are accepted at several stores. These credit cards are usually issued by a bank or financial company (examples: MasterCard, VISA, Discover, American Express).

Most credit cards have limits as to how much a person may owe at one time. Most credit cards also have a maximum amount you can charge at one time. In certain cases, a purchase may require another form of credit. Buying a house or a car can cost thousands of dollars. When people need to borrow a significant amount of money, they usually look to a bank for a loan.

What is a checking account?

Checking accounts are another form of credit. Checking accounts allow us to spend money without carrying cash. Most stores accept checks along with a photo identification. The store deposits the check into its bank. The bank then takes the cash from your account and pays the store. The store is depending on you having the amount of the check in your account. This makes it important that you always keep track of how much money is in your account so that you know the store will be paid. Keeping track of how much money is in your checking account is called "balancing" your checkbook.

Balancing your checkbook

Balancing your checkbook is keeping track of how much money is deposited and taken out of your account. If you have not balanced your checkbook, and there is not enough money in your account, the store will not be able to get paid by the bank. This is called "bouncing" a check. You will be charged every time you bounce a check, and eventually the bank could close your account. Therefore, to avoid getting yourself in trouble, always write down how much you spend and where you spend it (as you do when preparing a budget).

Remember that credit is a privilege that must be used wisely. If you purchase something with a credit card or a loan and plan to pay for it over an extended period of time, it's a good idea to include your credit payments in your weekly budget.

You should also keep in mind that if you use credit to pay for something, over time, the total cost of the item will be more than if you had paid cash.

This is because you must pay the credit card company or bank interest on the money it gave you in advance to buy the item. Credit provides people with greater financial flexibility. Without it, most people would not be able to afford to buy their homes, cars, or pay for their children's education. Credit also places a tremendous amount of responsibility on the user. Keeping your credit purchases in line with your budget will help you take advantage of all that credit has to offer.

GLOSSARY



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| Balance a Checkbook | A checkbook is "balanced" when the amount of money in the checking account is the same as the bank's records. |
| Bouncing a Check | Writing a check from an account for more money than is currently in the account, and the bank returns it to the place where it was cashed. |
| Credit | Money which is loaned, most often for a fee, and must be paid back. |
| Credit Card | A card that allows the holder to purchase an item or service immediately but pay for it later. |
| Credit Limit | Maximum amount able charge at one time with a particular credit card. |
| Check Register | Book in which to record the amount of all checks written and to whom they were given. |
| Interest | Fee for borrowing money. |

RELATED WEB SITES

| Web Site | Topic |
|--|---|
| www.consumercredit.com | American Consumer Credit Counseling, Inc. |
| www.financenter.com/ | Mortgages, auto loans, credit cards, calculators. |

ABOUT YOU...

Mother's Maiden Name

 () -
Length of Time There

____Years____Months____
City State Zip Code

Zip Code

About Your Income...

Other Annual Income (Bonuses, Dividends, Etc.)

Please print the full name of authorized user

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Design your own credit card below with the information above

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